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#### ARTICLES:

- (1) "Team Abe" fails to function in handling road construction tax revenue issue

December 9, 2006

Can the Abe government establish top-down leadership under the Kantei (Prime Minister's Official Residence)? The test of that was draft proposal that the cabinet adopted on Dec. 8 to use road construction tax revenues for general purposes. However, the actual decision was ultimately delayed to next year or later. Neither Prime Minister Shinzo Abe showed any signs of assuming leadership, nor did the so-called "Team Abe" installed in the Kantei and parts of the ruling Liberal Democratic Party (LDP) functioned as it was supposed to. We probe into the 10 days of wavering back and forth on the road-construction revenue issue.

Economic and Fiscal Policy Minister Ota urges Abe to state clearly

At the prime minister's office on the evening of Nov. 30, Abe held a meeting with Hiroko Ota, state minister in charge of economic and fiscal policy. Two days ago, Abe directed the state minister to draft a concrete plan to shift the tax revenues for road projects to general revenues. Attention was focused on what he would say at an advisory council meeting. Ota told Abe, "You should make a clear statement." He then said at an advisory panel meeting held soon after, "We will review (the road construction tax revenue system) including the gasoline tax revenues."

Abe's remarks seemed unexpected, but he and his aides have long been mulling over the plan since the September party presidential race. Abe had two aims: one was to play up his government's stance of placing emphasis on reforms by delving deep into reforming the gasoline tax revenue system, on which even former Prime Minister Junichiro Koizumi was unable to get going; and the other was to pave the way for a hike in the consumption tax rate.

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If the gasoline tax revenues, which account for about 80% of the road construction tax revenues, are used for the general purposes, a hike in the consumption tax would be small. The plan will meet the economic policy goal of the Abe administration, which places more priority on economic growth than fiscal reconstruction. A senior economic agency official pointed out, "The idea originally came from former Internal Affairs and Communications Minister Heizo Takenaka." Straight talk from Ota, who is regarded as close to Takenaka, has given rise to much speculation in the government and ruling coalition.

Nobuteru Ishihara quits being punching bag

In their meeting on Dec. 1, LDP Policy Research Council Chairman Shoichi Nakagawa and his deputy, Nobuteru Ishihara, who chairs the Highways Research Commission, expressed displeasure with Chief Cabinet Secretary Yasuhisa Shiozaki's aggressive remarks calling for moving the road construction tax revenues to the general revenue account in disregard of the LDP's views. Shiozaki and Ishihara are old friends. More they get higher posts, more they sense a rivalry.

Complicated feelings of politicians toward the road tax revenue issue became a tangled situation. On the night of Dec. 3 at the ANA Hotel in Akasaka, Ishihara gave Shiozaki his advice that he "should listen to the views of the LDP." Although attention was on which person Shiozaki or Ishihara would become the punching bag, Ishihara in effect drop out of the skirmish.

Secretary General Nakagawa keeps silent

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Secretary General Hidenao Nakagawa, who is regarded as Abe's backer,

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kept his silence on the road tax revenue issue. He visited Mexico to attend the inauguration ceremony for the new Mexican president from Nov. 30 through Dec. 4. He received reports from Shiozaki, but just replied, "I understand."

Relations between Nakagawa and senior LDP Upper House members,

including Chairman Mikio Aoki, have become delicate since Nakagawa handled the issue of reinstating postal rebels. If he again locks horns with Aoki, who is reluctant to use the gasoline tax revenues for general purposes, it could adversely effect Abe's ability to manage his government. Nakagawa's silence indicates the weakness of Abe's political base in the LDP.

Abe proudly told reporters on the evening of Dec. 8: "It was good that the government and ruling parties reached an agreement on the matter in line with the principles that I had stated."

But the picture given was one of Team Abe, with the exception of Shiozaki, failing to function properly during the process of coordinating views between the government and the ruling coalition.

The ruling parties have now laid down arms, having reached a conclusion to put off the hard decision to next year. At the last stage, however, they seem to have exercised self-restraint with next summer's Upper House election in mind, thinking that further skirmishes would hurt the Abe government. As seen in the road construction tax revenue issue, the Kantei's leadership has moved down one more notch.

(2) Editorial: The way to reallocate special-purpose road construction revenues for more general usage is casting a pall over Abe reform

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NIHON KEIZAI (Page 2) (Full)  
December 9, 2006

The issue of reallocating special-purpose road construction revenues for wider use, the first touchstone for the Abe administration, which has inherited the reform policy from the previous Koizumi administration, has been settled in an ambiguous way. We have called on Prime Minister Abe to clearly set a direction for shifting the use of road-related taxes, including the gasoline tax, for wider purposes, displaying leadership. However, there is an undeniable impression that the issue has been settled with the ruling camp steamrolling its way in pursuit of road improvement funds, with the prime minister having no visible policy impact.

The government and the ruling camp agreed to make legislative changes during the regular Diet session in 2008. The agreement did not mention that the gasoline tax, revenues from which account for more than 80% of the government's road funds, be subject to an amendment due to strong opposition from the ruling parties. It is also unconvincing that road construction revenues from local taxes, such as the light oil transaction tax, which amount to approximately 2.2 trillion yen, were not made subject to an amendment.

Though the agreement included a policy of reallocating a portion of money exceeding road improvement expenditures for more general usage, it also included a plan to draft a mid-term road construction program within the next fiscal year. This mid-term plan as requested by the ruling camp is tricky, because it could become a major justified cause for constructing roads. Road improvement expenditures appear to include portions for expanded road-related usage. For this reason, there is concern that the size of road improvement expenditures will expand. As such, the amount of money available as funds for general use is at present unclear.

Reallocation of revenues in the next fiscal year from the automobile weight tax, whose usage is not regulated by law, has also been put on the back burner. Approximately 570 billion yen from these revenues is allocated for road improvement. On the other hand, special-purpose road construction revenues have been used to repay debts held by the former Honshu-Shikoku Bridge Authority, and the repayment of the debts will be completed this fiscal year. As such, about 600 billion yen in a road-construction fund equivalent to revenues from the automobile weight tax is estimated to become surplus this fiscal year. An amount of money at least equivalent to revenues from the automobile weight tax should be used for purposes other than road construction. When road construction was boosted as a measure to stimulate the economy in the past, the government

issued government bonds to cover the revenue shortfall. It may be an idea to use road funds to reduce the outstanding balance of government bonds.

The prime minister expressed his desire to reallocate road funds for more general usage in his policy speech delivered right after his assumption of office. During the meeting of the Council on Economic and Fiscal Policy at the end of last month, he categorically said, "I will make revenues from the gasoline tax subject to an amendment." Chief Cabinet Secretary Yasuhisa Shiozaki during an LDP meeting made a pitch, saying, "Taking a second look at the usage of revenues from the gasoline tax is a touchstone for the government's reform drive." However, faced with an insurmountable objection from the LDP, his statement resulted in exposing the Kantei's weakness in coordination power.

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The Kantei wanted to use the issue of reallocating road funds for wider usage as a tool to give the impression that the structural reform drive is making headway so that the declined cabinet support rate following the reinstatement of postal rebels to the LDP can be restored. But it turned out badly. It seemed to the ruling camp that the Kantei is getting impatient. The ruling camp shrewdly succeeded in securing funds for road construction. The settlement this time is bound to cast a pall over the prime minister's structural reform policy. All the prime minister can do is to steadily bring results in the compilation of the fiscal 2007 budget and other areas so that the distribution of forces in which the party is strong and the Kantei is weak will not take root.

(3) Editorial: Questions remain about the bill revising the Basic Education Law

ASAHI (Page 3) (Full)  
December 13, 2006

Upper House deliberations on a bill revising the Basic Education Law are now at the final stage. The government and the ruling coalition eye the bill's enactment before the end of this week.

The Basic Education Law is important legislation specifying visions and principles necessary for nurturing children who will shape the country's future. In the effort to rewrite the entire text, all articles must be thoroughly examined and discussed. But there still remain many questions.

Both the current law that took effect in 1947 and the revision bill are packed with such words as "formation of character" and "components of the state and society" under "purposes of education." The only difference is that the bill with amendments contains "goals of education" composed of 20 items, including "patriotism" and "respects for tradition and culture."

Loving the nation is only natural. The amendment contains the words "respect for other countries," as well. We have pointed out that a provision in the law might end up uniformly teaching children to love the nation in a certain way.

We are particularly wary of forcing teachers to evaluate children's level of patriotism. In the previous Diet session, former Prime Minister Junichiro Koizumi rejected the need to evaluate children's level of patriotism. Prime Minister Shinzo Abe has indicated that students' attitudes toward learning Japanese traditions and culture would be evaluated. This might end up forcing students to vie to be patriotic in the classroom.

What to teach is also a major question. Education Minister Bunmei Ibuki cited how predecessors dealt with such events as the 13th century Mongol invasion attempts against Japan. The state might end up using historical facts in the name of teaching patriotism to its advantage.

The second point of contention is the interpretation of the phrase "education would be conducted without giving in to improper control." In the current law, this part is followed by "directly for

all the people in a responsible manner." Educators and teachers unions have identified this provision as the shield against administrative intervention in education.

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"Without giving in to improper control" is intact in the amendment. But the subsequent part was altered into "to be conducted based on this law and other legislation."

Ibuki explained that the change was made to eliminate intervention by political associations and that legislation and the ministry's official guidelines for school teaching do not constitute "improper control," as they represent national wishes.

Ibuki's explanation alludes to a mentality that anything is possible as long as the law and the legislation and the guidelines stipulate matters. This evokes an uneasiness.

The new basic educational promotion plan poses some questions, as well. It might be significant if it would lead to securing necessary educational funds. But according to it, local districts are required to formulate plans independently by using the state's plans as references. The basic plan might become a tool constraining regional education, depending on how it is used.

Above all, the basic plan does not provide answers to fundamental questions. Is the current Basic Education Law to blame for such serious problems as declining academic standards, truancy, and bullying? Will those problems go away if the law is revised? Answers to those questions have not been presented in Upper House deliberations.

(4) Editorial: North Korea must honestly abandon nuclear ambitions

MAINICHI (Page 5) (Full)  
December 13, 2006

The six-party talks to discuss the North Korean nuclear issue are set to reopen on Dec. 18 in Beijing. This will be the first session in 13 months and also since the North conducted a nuclear test in October.

The six-party talks are the sole venue that can realize a denuclearized Korean Peninsula through diplomatic efforts. They can also provide a good opportunity for the North to end its international isolation. We hope the North will steadily move toward nuclear dismantlement.

The six-party talks that started in 2003 managed to adopt a joint statement in September 2005 obligating North Korea to abandon all nuclear weapons and existing nuclear programs. But disagreement between Washington and Pyongyang on establishing a working group to discuss the nuclear disarmament process forced the talks to recess in November 2005.

The US has subsequently imposed financial sanctions on North Korea in reaction to Pyongyang's counterfeiting operations, and the North has rejected returning to the negotiating table by citing absurd reasons. On top of America's financial sanctions, the international community has placed financial sanctions on North Korea based on a UN Security Council resolution that followed Pyongyang's ballistic missile tests in July and a nuclear test in October.

At long last, Pyongyang in late October expressed its willingness to rejoin the multilateral talks. The reason may have been growing financial sanctions by the UN, Japan, the US, and other countries that have dealt a serious blow to the North's efforts to earn foreign currency and exacerbated its economic condition.

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The North is demanding that it be treated as a nuclear power on the grounds that it has declared itself a nuclear-weapons possessing

state. It also demands that the financial and economic sanctions be lifted. Its demands are unreasonable. In adopting the joint statement, the North promised nuclear dismantlement, which is essential for realizing a nuclear-free Korean Peninsula, as specified in the Japan-DPRK Pyongyang Declaration and the South-North Joint Declaration of the Denuclearization of the Korean Peninsula.

China, the chair of the six-party talks, also defines the six-party talks that will begin Dec. 18 as part of the continuing process leading up to the implementation of the joint statement. The US and North Korea have conducted informal bilateral talks brokered by China. Short-term objectives include establishing working groups on such themes as financial sanctions, normalization of US-DPRK and Japan-DPRK relations, food and energy aid, in tandem with freezing the North's nuclear activities and having Pyongyang report its current situation.

Economic cooperation and assistance by neighboring countries, centering on Japan, is also essential at the final stage of resolving the nuclear issue. The North has repeatedly demanded that Japan be removed from the multilateral framework by citing the abduction issue. Pyongyang must realize that such an attitude would prompt Japanese public opinion to harden.

Some think that America's diplomatic power has weakened due to its having run into a cul-de-sac in its Iraq policies. Unity among Japan, the US, and South Korea and cooperation with China and Russia are particularly important under such circumstances. US Assistant Secretary of State Christopher Hill, America's chief delegate to the

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six-party talks, is expected to arrive in Beijing as early as this weekend to undertake coordination in advance of the upcoming talks. The Japanese government is also urged to actively intensify cooperation with other countries on the diplomatic front.

Once the talks open, North Korea might try to buy time or demand more of compensation while disregarding nuclear dismantlement. Such an approach no longer works. Chances are also slim that the United Nations will lift its sanctions. We would like to see North Korea return to its starting point - its promise in September 2005 to abandon all nuclear weapons and existing nuclear programs -- and take sincere action.

(5) Editorial: Strengthening relations with India strategically important for Japan

SANKEI (Page 2) (Full)  
December 13, 2006

Indian Prime Minister Singh will visit Japan as an official guest from Dec. 13 through the 16th. Since Prime Minister Vajpayee came to Japan in 2001, no Indian prime minister has visited Japan.

A meeting between Singh and Prime Minister Shinzo Abe has been set for Dec. 15. Besides, the Indian prime minister is scheduled to meet with the Emperor and Empress, as well as to deliver a speech at the Diet. The Japanese government intends to roll out the red carpet for him.

Different from China, India shares common fundamental values with

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Japan, for instance, democracy, the rule of law, and freedom of speech. India is pro-Japanese, and its economy has remarkably grown recently. In order to counter China's hegemonic expansion, too, it is important for Japan to deepen and expand relations with India.

In the planned summit, the two leaders are expected to agree on plans to initiate negotiations on concluding an economic partnership agreement (EPA) early next year, to revise the aviation pact to significantly increase the number of regular flights, and to hold an annual summit.

India's gross domestic product (GDP) ranks third in Asia, following

Japan and China. In 2005, it registered a robust 8.4% economic growth rate. Although the value of trade between Japan and India has been on the rise since 2003, their trade value was not placed on the top-20 list, far smaller than that between Japan and China (ranks second).

In this sense, it is significant for Japan and India to conclude an EPA, centering on a free trade agreement (FTA). The Association of Southeast Asian Nations (ASEAN), China, South Korea, and the European Union (EU) have already started negotiations or have agreed to start negotiations on concluding an FTA with India.

The Indian economy contains a number of problems, including the delay in infrastructure construction such as roads, port facilities and railways, as well as a lack of programs to deal with poverty. India is the top recipient of Japan's official development assistance (ODA) funds. The ODA program should be utilized more effectively.

However, optimism may not be warranted. China and India has pursued a multilateral diplomacy since the end of the Cold War period. Chinese President Hu Jintao visited India in late November, prior to the Japan-India summit. They confirmed the maintenance of the China-India partnership and agreed to expand bilateral trade. The border dispute is also moving toward a settlement. The United States also is rapidly approaching India by concluding an atomic power agreement.

Japan worked to induce India and Australia into the East Asia summit conference. An initiative has now emerged of forming a forum for four-nation strategic dialogue among Japan, the US, Australia, and India, which share common values. The upcoming Japan-India summit should be utilized as a good opportunity for Japan to reconfirm the importance of relations with India. This year marks a year to deepen friendship between China and India. Next year will be a year to promote exchanges between Japan and India.

(6) Triangular merger: Chief Cabinet Secretary Shiozaki demands reconsideration; Keidanren opposing proposal as resurrecting old argument

SANKEI (Page 9) (Excerpts)  
December 12, 2006

It was learned yesterday that regarding the planned triangular merger scheme, which is intended to make it easy for foreign companies to merge and acquire Japanese companies, Chief Cabinet Secretary Shiozaki asked the Finance Minister and the Ministry of

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Economy, Trade and Industry to ease the system so that foreign companies will find it easier to merge with acquire Japanese companies. Since the ruling parties have already firmed up a policy

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of toughening measures to prevent the abuse of the triangular merger scheme, the Japan Business Federation is opposing the proposal as resurrecting the old argument. The unusual announcement of a view by Shiozaki is creating a stir.

Triangular mergers are to be legalized next May. Shiozaki during a news conference yesterday noted, "I made that statement because I thought that in order to maintain vitality in our low-birth-rate society it is necessary to revitalize Japan, by bringing in economic growth abroad. I have already conveyed my view that an amendment to the tax system should reflect that principle."

The LDP Tax System Research Council intends to adopt measures to prevent the abuse of triangular mergers using paper companies for the purpose of dodging taxation. Shiozaki called on the panel to adjust its plan to the government policy, noting, "I hear various discussions are being pursued in the party."

In response, Nippon Keidanren Chairman Fujio Mitarai touched on the tax system concerning triangular mergers during a press conference yesterday and supported the tax panel's policy, saying, "In Japan

deferred taxation is not allowed for a merger involving a paper company. If it were applied to mergers involving foreign companies as an exception, it would collapse the tax system. It is illogical."

The US government and the American Chamber of Commerce have been opposing regulating mergers through paper companies. Responding to a question about whether the US has applied pressure on the Japanese government, Shiozaki ruled out such a possibility, saying, "There has been no such approach at all."

The position of the LDP tax panel is that it is not possible to impede what has been introduced under the corporate law with the tax system." A senior member of the panel said, "It is not appropriate to adopt the system only with a notification from the National Tax Agency. It is necessary to make the system clear under a government ordinance and a ministry ordinance in order to prevent its abuse."

(7) Kasumigaseki confidential: Special advisors to the Prime Minister are "losers"

BUNGEI SHUNJU (Page 234) (Full)  
January 2007

Two months have passed since the cabinet of Prime Minister Shinzo Abe came into being. Bureaucrats were horrified by the lineup of the cabinet members, who are antagonistic toward the bureaucracy.

Administrative Vice Foreign Minister Shotaro Yachi and his followers are enjoyed the peak of their bureaucratic power. They made Abe's visits to China and South Korea in October a success. In a bid to avoid the confusion that is going on still in the United States after the Republican Party was defeated in the mid-term (congressional) elections, Abe plans to go to Europe in January and he will then make his first trip to the US as prime minister during the next Golden Week holiday period, which runs from late April to early May. This is a plan crafted by Yachi and his team. Abe has distanced himself from administrative vice-ministers. The only exception to that is Yachi, who still wields considerable power. It is certain that Yachi will be serving in his current post until January 2008. There is no doubt that he will continue to have power for at least one year.

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In the meantime, special advisors to the prime minister, who were appointed with great fanfare, have not done anything remarkable in their jobs. Although Special Advisor on National Security Yuriko Koike, former environment minister, debuted spectacularly with her meeting with US National Security Adviser Stephen Hadley, she has been playing a low-keyed role since. She added chairs in her office, expecting many guests, but they have not been used for a long time.

The framework of a Japanese version of the US National Security Council (NSC) is supposed to be firmed up in February 2007, but the likelihood is that the Japanese version of the NSC will be modeled after that of Britain, which has a parliamentary system like Japan, and not the US' NSC, which is quite powerful. In short, a system that would allow special advisors to make decisions through discussions will not be created. Although Koike built a communication channel to Hadley, Chief Cabinet Secretary Yasuhisa Shiozaki, who has undertaken all security affairs, serves as Hadley's counterpart. Koike will have to start again from the start.

The main job of Special Advisor on Public Relations Hiroshige Seko, who was enthusiastic about briefing summit talks, is now talking to local correspondents of countries where the prime minister visits.

At the Asia-Pacific Economic Cooperation conference in November, Seko was a messenger to tell media people, "The briefing by the deputy chief cabinet secretary will soon start."

People close to the Kantei have agreed that Yachi and his team, and Shiozaki are "winners" and special advisors are "losers."



